

PINNACLE FINANCIAL PARTNERS INC

Form 10-Q

November 06, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission File Number: **000-31225**

, Inc.

(Exact name of registrant as specified in its charter)

Tennessee

62-1812853

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

211 Commerce Street, Suite 300, Nashville, Tennessee

37201

(Address of principal executive offices)

(Zip Code)

(615) 744-3700

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changes since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

(do not check if you are a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

As of October 31, 2008 there were 23,708,607 shares of common stock, \$1.00 par value per share, issued and outstanding.

Pinnacle Financial Partners, Inc.
Report on Form 10-Q
September 30, 2008
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FORWARD-LOOKING STATEMENTS

Pinnacle Financial Partners, Inc. ("Pinnacle Financial") may from time to time make written or oral statements, including statements contained in this report which may constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The words "expect," "anticipate," "intend," "consider," "plan," "believe," "seek," "should," "estimate," and similar expressions are intended to identify such forward-looking statements, but other statements may constitute forward-looking statements. These statements should be considered subject to various risks and uncertainties. Such forward-looking statements are made based upon management's belief as well as assumptions made by, and information currently available to, management pursuant to "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Pinnacle Financial's actual results may differ materially from the results anticipated in forward-looking statements due to a variety of factors. Such factors are described in "Item 1A. Risk Factors" of Pinnacle Financial's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and include, without limitation, (i) unanticipated deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses, (ii) the inability of Pinnacle to continue to grow its loan portfolio at historic rates in the Nashville-Davidson-Murfreesboro-Franklin MSA and the Knoxville MSA, (iii) increased competition with other financial institutions, (iv) lack of sustained growth in the economy in the Nashville-Davidson-Murfreesboro-Franklin MSA and the Knoxville MSA, (v) rapid fluctuations or unanticipated changes in interest rates, and (vi) changes in state and Federal legislation or regulations applicable to Banks and other financial services providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy.. Many of such factors are beyond Pinnacle Financial's ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. Pinnacle Financial does not intend to update or reissue any forward-looking statements contained in this report as a result of new information or other circumstances that may become known to Pinnacle Financial.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2008	December 31, 2007
<u>ASSETS</u>		
Cash and noninterest-bearing due from banks	\$ 58,670,045	\$ 76,941,931
Interest-bearing due from banks	3,688,622	24,706,966
Federal funds sold	29,039,938	20,854,966
Cash and cash equivalents	91,398,605	122,503,863
Securities available-for-sale, at fair value	617,909,350	495,651,939
Securities held-to-maturity (fair value of \$10,813,596 and \$26,883,473 at September 30, 2008 and December 31, 2007, respectively)	10,897,923	27,033,356
Mortgage loans held-for-sale	15,161,830	11,251,652
Loans	3,202,909,472	2,749,640,689
Less allowance for loan losses	(34,840,853)	(28,470,207)
Loans, net	3,168,068,619	2,721,170,482
Premises and equipment, net	67,296,594	68,385,946
Other investments	25,660,787	22,636,029
Accrued interest receivable	17,125,958	18,383,004
Goodwill	243,250,854	243,573,636
Core deposit and other intangible assets	17,659,468	17,325,988
Other assets	63,122,391	46,254,566
Total assets	\$ 4,337,552,379	\$ 3,794,170,461
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Deposits:		
Non-interest-bearing	\$ 457,542,942	\$ 400,120,147
Interest-bearing	331,706,748	410,661,187
Savings and money market accounts	677,367,407	742,354,465
Time	1,828,546,046	1,372,183,317
Total deposits	3,295,163,143	2,925,319,116
Securities sold under agreements to repurchase	198,806,912	156,070,830
Federal Home Loan Bank advances and other borrowings	207,239,268	141,666,133
Subordinated debt	97,476,000	82,476,000
Accrued interest payable	8,419,326	10,374,538
Other liabilities	17,879,022	11,653,550
Total liabilities	3,824,983,671	3,327,560,167

Stockholders equity:

Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding

Common stock, par value \$1.00; 90,000,000 shares authorized; 23,699,790 issued and outstanding at September 30, 2008 and 22,264,817 issued and outstanding at December 31, 2007

Additional paid-in capital

Retained earnings

Accumulated other comprehensive loss, net of taxes

Total stockholders equity

Total liabilities and stockholders equity

23,699,790	22,264,817
416,105,723	390,977,308
76,373,045	54,150,679
(3,609,850)	(782,510)
512,568,708	466,610,294
\$ 4,337,552,379	\$ 3,794,170,461

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Interest income:				
Loans, including fees	\$ 44,075,167	\$ 32,750,403	\$ 131,694,867	\$ 92,283,516
Securities:				
Taxable	6,005,024	3,387,464	15,434,782	10,127,943
Tax-exempt	1,339,930	743,921	4,030,699	2,106,857
Federal funds sold and other	452,690	1,464,795	1,647,725	3,075,372
Total interest income	51,872,811	38,346,583	152,808,073	107,593,688
Interest expense:				
Deposits	18,778,955	16,043,425	57,583,697	44,037,317
Securities sold under agreements to repurchase	681,912	2,061,333	2,081,055	5,664,167
Federal Home Loan Bank advances and other borrowings	3,130,448	1,282,159	8,820,575	4,189,055
Total interest expense	22,591,315	19,386,917	68,485,327	53,890,539
Net interest income	29,281,496	18,959,666	84,322,746	53,703,149
Provision for loan losses	3,124,819	772,064	7,503,412	2,460,028
Net interest income after provision for loan losses	26,156,677	18,187,602	76,819,334	51,243,121
Noninterest income:				
Service charges on deposit accounts	2,778,097	1,965,965	8,036,320	5,683,199
Investment services	1,271,284	868,738	3,759,779	2,453,505
Insurance sales commissions	959,104	563,367	2,612,255	1,829,282
Gain on loan sales, net	1,460,478	378,682	2,996,390	1,380,883
Net gain on sale of premises			1,010,881	56,078
Trust fees	584,927	466,581	1,621,385	1,312,076
Other noninterest income	2,199,051	1,088,430	6,641,819	3,193,840
Total noninterest income	9,252,941	5,331,763	26,678,829	15,908,863
Noninterest expense:				
Salaries and employee benefits	13,013,116	9,106,256	39,382,393	26,167,610
Equipment and occupancy	3,731,932	2,632,747	11,235,137	7,209,977
Marketing and other business development	380,555	375,066	1,234,933	1,057,092
Postage and supplies	761,744	474,083	2,253,371	1,453,197

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Amortization of intangibles	788,267	515,754	2,312,333	1,547,262
Other noninterest expense	3,485,581	2,005,752	9,854,795	5,282,516
Merger related expense	1,165,177		5,620,216	
Total noninterest expense	23,326,372	15,109,658	71,893,178	42,717,654
Income before income taxes	12,083,246	8,409,707	31,604,985	24,434,330
Income tax expense	3,288,104	2,637,897	8,783,920	7,634,815
Net income	\$ 8,795,142	\$ 5,771,810	\$ 22,821,065	\$ 16,799,515
 <i>Per share information:</i>				
Basic net income per common share	\$ 0.38	\$ 0.37	\$ 1.01	\$ 1.09
Diluted net income per common share	\$ 0.36	\$ 0.35	\$ 0.96	\$ 1.01
 Weighted average shares outstanding:				
Basic	23,174,998	15,503,284	22,559,449	15,477,339
Diluted	24,439,642	16,609,328	23,826,368	16,630,311

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Shares	Amount	Additional Paid-in Capital			
Balances, December 31, 2006	15,446,074	\$ 15,446,074	\$ 211,502,516	\$ 31,109,324	\$ (2,040,893)	\$ 256,017,021
Exercise of employee common stock options and related tax benefits	78,437	78,437	645,118			723,555
Issuance of restricted common shares pursuant to 2004 Equity Incentive Plan, net of forfeitures	28,526	28,526	(28,526)			
Compensation expense for restricted shares			272,260			272,260
Compensation expense for stock options			1,252,638			1,252,638
Comprehensive income:						
Net income				16,799,515		16,799,515
Net unrealized holding losses on securities available-for-sale , net of deferred tax benefit of \$1,285,456					(428,559)	(428,559)
Total comprehensive income						16,370,956
Balances, September 30, 2007	15,553,037	\$ 15,553,037	\$ 213,644,006	\$ 47,908,839	\$ (2,469,452)	\$ 274,636,430
Balances, December 31, 2007	22,264,817	\$ 22,264,817	\$ 390,977,308	\$ 54,150,679	\$ (782,510)	\$ 466,610,294
Cumulative effect of change in accounting				(598,699)		(598,699)

principle due to adoption of EITF 06-4, net of tax Proceeds from sale of common stock (less offering expenses of \$45,242)	1,000,000	1,000,000	20,454,758			21,454,758
Exercise of employee common stock options, stock appreciation rights, common stock warrants and related tax benefits	267,403	267,403	3,134,699			3,402,102
Issuance of restricted common shares pursuant to 2004 Equity Incentive Plan, net of forfeitures	167,570	167,570	(167,570)			
Compensation expense for restricted shares			260,439			260,439
Compensation expense for stock options			1,446,089			1,446,089
Comprehensive income:						
Net income				22,821,065		22,821,065
Net unrealized holding losses on securities available-for-sale, net of deferred tax benefit of \$1,712,941					(2,827,340)	(2,827,340)
Total comprehensive income						19,993,725
Balances, September 30, 2008	23,699,790	\$ 23,699,790	\$ 416,105,723	\$ 76,373,045	\$ (3,609,850)	\$ 512,568,708

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended	
	September 30,	
	2008	2007
Operating activities:		
Net income	\$ 22,821,065	\$ 16,799,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization/accretion of premium/discount on securities	526,022	376,450
Depreciation and amortization	4,788,550	2,010,487
Provision for loan losses	7,503,412	2,460,028
Gains on loans and loan participations sold, net	(2,996,390)	(1,380,883)
Net gains on sale of premises	(1,010,881)	56,078
Stock-based compensation expense	1,706,528	1,524,898
Deferred tax (benefit) expense	(1,274,403)	1,587,523
Other non-cash operating activities	194,558	
Excess tax benefit from stock compensation	(805,414)	(128,678)
Mortgage loans held for sale:		
Loans originated	(212,279,309)	(125,018,617)
Loans sold	211,353,184	126,137,833
Decrease in other assets	7,912,982	1,672,572
Increase (decrease) in other liabilities	2,672,391	(3,461,145)
Net cash provided by operating activities	41,112,295	22,636,061
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(233,008,882)	(36,988,675)
Sales		
Maturities, prepayments and calls	105,725,683	30,193,241
Activities in securities held-to-maturity:		
Purchases		
Sales		
Maturities, prepayments and calls	16,080,000	
Increase in loans, net	(472,054,326)	(232,911,778)
Purchases of premises and equipment and software	(6,198,441)	(5,097,092)
Proceeds from the sale of premises and equipment	2,821,702	
Cash used for acquisition	(3,800,000)	
Investments in unconsolidated subsidiaries and other entities	(2,583,983)	(1,222,570)
Net cash used in investing activities	(593,018,247)	(246,026,874)
Financing activities:		
Net increase in deposits	371,825,090	205,095,262

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Net increase in securities sold under agreements to repurchase	42,736,082	4,313,965
Net (decrease) increase in Federal funds purchased	(39,862,000)	19,986,000
Advances from Federal Home Loan Bank:		
Issuances	110,478,047	35,000,000
Payments	(13,882,995)	(53,040,828)
Net increase in borrowings under lines of credit	9,000,000	
Proceeds from issuance of subordinated debt	15,000,000	
Proceeds from the sale of common stock, net of expenses	21,454,758	
Exercise of common stock options	3,246,298	594,877
Excess tax benefit from stock compensation	805,414	128,678
Net cash provided by financing activities	520,800,694	212,079,954
Net decrease in cash and cash equivalents	(31,105,258)	(11,310,859)
Cash and cash equivalents, beginning of period	122,503,863	92,518,850
Cash and cash equivalents, end of period	\$ 91,398,605	\$ 81,207,991

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Nature of Business Pinnacle Financial Partners, Inc. (Pinnacle Financial) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Pinnacle National Bank (Pinnacle National). Pinnacle National is a commercial bank headquartered in Nashville, Tennessee. Pinnacle National provides a full range of banking services in its primary market areas of the Nashville-Davidson-Rutherford-Franklin and Knoxville Metropolitan Statistical Areas.

In addition to Pinnacle National, Pinnacle Financial, for the time period following its merger with Mid-America Bancshares, Inc. (Mid-America) on November 30, 2007 through February 29, 2008, conducted banking operations through the two banks formerly owned by Mid-America: PrimeTrust Bank in Nashville, Tennessee and Bank of the South in Mt. Juliet, Tennessee. On February 29, 2008, Pinnacle National purchased all of the assets and assumed all of the liabilities of PrimeTrust Bank and contemporaneously, through a series of transactions, sold the PrimeTrust Bank charter and rights to operate a branch in Tennessee to an unaffiliated out-of-state third party for \$500,000. Pinnacle Financial also merged Bank of the South into Pinnacle National on that date. References to Pinnacle National as of December 31, 2007 include PrimeTrust Bank and Bank of the South.

Basis of Presentation The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Pinnacle Financial consolidated financial statements and related notes appearing in the 2007 Annual Report previously filed on Form 10-K.

These consolidated financial statements include the accounts of Pinnacle Financial and its wholly-owned subsidiaries. PNFP Statutory Trust I, PNFP Statutory Trust II, PNFP Statutory Trust III, PNFP Statutory Trust IV and Collateral Plus, LLC, are affiliates of Pinnacle Financial and are included in these consolidated financial statements pursuant to the equity method of accounting. Significant intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses.

Cash Flow Information Supplemental cash flow information addressing certain cash payments and noncash transactions for each of the nine months ended September 30, 2008 and 2007 was as follows:

	<i>For the nine months ended September</i>	
	<i>30,</i>	
	<i>2008</i>	<i>2007</i>
<i>Cash Payments:</i>		
Interest	\$ 72,581,518	\$ 53,491,752
Income taxes	7,500,000	7,850,000
<i>Noncash Transactions:</i>		
Loans charged-off to the allowance for loan losses	2,442,259	809,703
Loans foreclosed upon with repossessions transferred to other assets	18,195,935	240,878

Net unrealized holding losses on available-for-sale securities,
net of deferred tax benefit

(2,827,340)

(428,559)

Income Per Common Share Basic earnings per share (EPS) is computed by dividing net income by the weighted average common shares outstanding for the period. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue

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**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

common stock were exercised or converted. The difference between basic and diluted weighted average shares outstanding was attributable to common stock options, common stock appreciation rights, warrants and restricted shares. The dilutive effect of outstanding options, common stock appreciation rights, warrants and restricted shares is reflected in diluted earnings per share by application of the treasury stock method.